Executive Summary

Four years ago, Rockall established the Securities-Based Lending Forum for leaders in the world of wealth lending. Each year, we survey the members of this group for their outlook on the business. In the market every day, we are delighted to bring this survey report with our insights to you. This report gives a sense of the day-to-day challenges facing our industry. As we manage our way through this crisis, and look towards a future recovery, we are always interested in your thoughts and reflections.

SBL – A RISK-MANAGED CREDIT PRODUCT FOR A TURBULENT MARKET

Since we took our survey, the world has changed dramatically. Enormous uncertainty has displaced bullish estimates for global wealth growth which predicted a 27% increase in the next five years. At this point, it is impossible to predict the pandemic’s impact. Suffice to say, in these turbulent times, liquidity becomes ever more important. Post-pandemic, market fundamentals will come back into play and, we hope, business will return to a stable footing.

In the months prior to the crisis, SBL balances grew at rates of over 20% for certain lenders, indicating that SBL has evolved beyond its traditional role as a short-term credit tool for tax season and the like. At that point, growth was coming from increased sales to current customers and improved utilization rates on existing SBL loans, rather than necessarily tapping into new sales channels.

Market familiarity beyond the (U)HNW segment supports growth - with more financial institutions offering and promoting SBL and raising awareness of SBL’s advantages as a credit product.

Regional banks and RIAs have benefitted from increased market fragmentation: as full-service brokerage firm advisors migrate to independent status, demand for SBL has been growing in this base; this has been further supported by the availability of white label SBL lending/servicing offerings. New capital flows were starting to emerge from third-party lenders to support demand growth beyond (U)HNW into the larger mass affluent segment.

ENABLING THE SALES CHANNEL

As digitization exposes FAs to better and more comprehensive client information, they are better-placed than ever to deliver a more fully-rounded, value-driven service to their clients - optimizing both sides of the balance sheet to generate and protect wealth. FAs need access to accurate client and loan information and a path to fast release decisions. This is all the more important at times of severe volatility as seen recently.

The FA sales channel can be fully enabled by putting daily client information on their dashboards; delivering portfolio balances (including for assets held away), loan balances, funds availability and credit offers. The client experience (and peace of mind) is further improved by enabling the FA to test the performance of a credit line and its pledged portfolio(s) against possible market scenarios. Likewise, an FA can be equipped to initiate a loan application directly in a client meeting, helping them to secure and close potential business, there and then.
MARKET VOLATILITY IS THE KEY CONCERN

Worries around the ability to respond at scale to a bear market have justifiably increased significantly since last year, prompting discussions around all aspects of the credit risk agenda: credit policy flexibility, conservative cushions on lendable amounts, bulk triage of the book and high-volume client communications. Recent market events have put these measures to the test.

Lenders increasingly need detailed and granular insights into the SBL book – whether at loan, account, geography, sector or individual security level. The ability to stress test and scenario plan is critical – as is the flexibility to adjust credit policies and throttle back on lending rates for both simple and complex loans. More and more, lenders need the information and automated processes to handle sales – and volatility – at scale.

AUTOMATION IS MORE IMPORTANT THAN EVER

While SBL growth has been strong, there is no doubt that firms have geared up for more volatility, seeking automated systems, deeper and better data, flexible client communication pathways with insights and early warning systems. Never have robust monitoring and credit data systems been so important.

SBL automation, then, brings a range of benefits including scalability, risk management, streamlined and secure collateral release, alerts and automated OOM communications.

Alongside automation, growing customer demand has increased market competition, making speed-to-loan a competitive advantage. The vast majority of SBL lenders have been actively working on reducing their time to loan from multiple days (in some cases weeks) to a single day. While time-to-loan of one or even two days remains aspirational in the vast majority of cases, changing practices – and the reliance on the SBL asset as the primary source of loan security, alongside the elimination of unnecessary underwriting activities – is a reality for many firms today; acknowledging that current market conditions have correctly put an enormous focus on credit risk management and handling volatility impacts.

Removing friction from the system requires change at all levels in the process - from portfolio evaluation to underwriting to loan servicing. Giving the advisor better access to information is part of this journey. Increasingly, we see demand for advanced digital tools and dashboards to allow advisors to present the best options to their clients, whether this relates to liquidity options, or loan release decisions. As part of this evolution, Rockall is now offering NAVIGATOR as an extension to FASTNET to directly empower the FA with accurate borrower and loan information via their dashboard. SBL proposals can be automatically generated and the SBL origination process initiated by the FA as part of a full digital experience. Likewise, credit release decisions, margin call management and client communications workflow are streamlined.

CONCLUSION

As SBL moves evermore into the mainstream, wealth managers are empowered to operate in the SBL market with increasing sophistication – driven by the accurate and granular data they can source from state-of-the-art systems, even in the choppier of market conditions.

Whatever the markets have in store for us, digitization makes accessing client and market information easier than ever.

In the face of uncertain market conditions, vendors need the capacity to place their credit risk management focus in the right place. The need to triage the book and handle OOMs automatically at scale is self-evident.

The ability to compete in the SBL market with full risk control and a streamlined customer experience relies on process efficiency and automation - whether we are in full steam ahead growth or scenario-planning with a more cautious market outlook.

METHODOLOGY

Our 2019 SBL Industry Survey summarizes the sentiment of over forty representatives from leading US banks and wealth managers who were polled at Rockall’s Annual SBL Forum.
About Rockall

Now part of Broadridge Financial Solutions, Inc., Rockall helps the world's leading financial institutions to improve lending and risk performance and to make the right business decisions.

Delivering sophisticated solutions with broad functionality, improving transparency, efficiency and risk management to over 30 global clients, Rockall is focused on the collateral management vertical, serving Wealth Management, Private Banking, Retail & Wholesale banking needs.

Large, global banks use our Rockall products to streamline collateral management, credit risk and lending performance. Rockall’s SBL product, FASTNET is the first wealth lending solution to be hosted in the cloud and represents the evolution of over 19 years of experience. Extended by NAVIGATOR, our platform delivers end-to-end SBL processing including FA-level proposal generation & loan origination workflow.

Learn more about Rockall and our products at rockall.com
About Broadridge

Broadridge Financial Solutions Inc. (NYSE: BR), a $4 billion global Fintech leader and a part of the S&P 500® Index, is a leading provider of investor communications and technology-driven solutions to banks, broker-dealers, asset managers and corporate issuers globally.

Broadridge’s investor communications, securities processing and managed services solutions help clients reduce their capital investments in operations infrastructure, allowing them to increase their focus on core business activities. With over 50 years of experience, Broadridge’s infrastructure underpins proxy voting services for over 50 percent of public companies and mutual funds globally, and processes on average more than US $5 trillion in fixed income and equity trades per day. Broadridge employs over 10,000 full-time associates in 18 countries.

For more information about Broadridge, please visit broadridge.com
SBL – evolving models for growth & change
SBL - evolving for growth & change

SBL commitments have grown at over 20% p.a. for certain banks. In turbulent market conditions, SBL growth is contingent on full credit risk control. Recent growth has been supported, in the main, by a push into existing portfolio balances as wealth managers enable the FA sales channel to maximize SBL uptake within their customer base.

Even as new growth opportunities have emerged, wealth managers have looked more to penetrate assets within the firm first. SBL automation has helped them to respond to their clients’ needs in a broader way by delivering insights and purchasing signals within the portfolio.

Lending against assets held away is in the sights as WMs look for new market traction, although it has yet to feature in a substantial way for most. Utilizing a wider range of collateral types involves more complex loan evaluation and monitoring - including for exotic securities and non-liquid asset classes. All of this requires planning and sophisticated risk management systems that can respond in real-time.

Established SBL lenders have also been looking to improve efficiency within the book by better managing commitment-to-drawdown ratios in order to optimize loan returns.

**QUESTION**
Where do you expect SBL growth to come from:

- Lending against assets held away: 3%
- Accepting new collateral types: 7%
- Affiliating with independent broker / dealers: 21%
- Reaching new customer markets: 69%
- Further penetrating our existing AUM: 33%

**QUESTION**
Over the last year, SBL commitment balances at my bank have grown by:

- Less than 10%: 33%
- Between 10% - 20%: 50%
- Between 20% - 30%: 7%
- More than 30%: 10%
77% of respondents believe that SBL is a “must-have” part of the credit offering. As credit becomes a pre-requisite, wealth firms without an SBL offering are more likely to lose out.

SBL’s role in delivering rapid access to liquidity, even in choppy market conditions and beyond the (U)HNW cohort, points to WMs with streamlined and fast approval process being more likely to win out.

As the market gets busier with new entrants promoting SBL to their client base, SBL awareness is increased in the wider market: (U)HNW, mass affluent, FAs & RIAs. New entrants and novel access points are adding to the field. With widescale adoption of SBL as a standard wealth credit product, the picture of an established SBL marketplace is firming up as illustrated here:

More wealth managers and banks of various sizes offering SBL (whether through self-funded lending or white labelling).

Mass Affluent steadily emerging as a new market requiring lenders to have the capability to manage larger volumes of lower value loans at speed.

Competitive demand for faster origination and loan servicing, ideally on an end-to-end platform.

Digitization is mainstream – and FAs are demanding better sales enablement with streamlined CX for their clients. The improved information flows and visibility will likely result in (U)HNWs shopping around for the best loan terms and interest rate value.

End-to-end SBL automation, in its own right, will likely trigger growth. The faster and easier SBL loan approval and funding is, the more attractive SBL becomes as an alternative to other forms of credit.

QUESTION
SBL loans are being offered by a wider range of institutions and are no longer just the preserve of the wire-houses. What is driving this change?

| 10% | RIAs/brokers moving away from wire houses are taking their HNW clients (and demand for SBL) with them |
| 13% | Banks without SBL are losing AUM |
| 35% | More institutions see SBL as a great product to sell |
| 42% | More banks and broker/dealers see SBL as a ‘must have’ component of their credit offering |

QUESTION
It is inevitable that the Mass Affluent will enter the SBL market in the next three years:

| 39% | Completely agree |
| 61% | Agree |
| 7% | Disagree |
True digitization of the wealth channel, from front to back office, removes barriers and improves visibility over the client’s full balance sheet - all the while delivering robust credit risk control.

Considering this, lenders are competing on multiple fronts – customer experience, loan offer, time-to-loan – all the while keeping operational costs to a minimum and without compromising on risk management.

A SIDEBAR ON CREDIT POLICIES

Flexible credit policies with exceptions are now the norm. Despite this, 13% of respondents do not have the capability for exception management. Being able to offer exceptions to credit terms means that the WM can be more competitive without taking on additional material risk.

WMs need the ability to run credit policies that flex with market conditions, concentration in the book and underlying collateral quality.

A single, automated SBL system delivers aggregated data and business insights to inform credit pricing and to support and inform credit policy flexibility. Giving banks a granular view into the loan book and associated portfolios enables them to more accurately price risk in a loan and to actively manage haircuts and available funding rules. With this approach, WM can make more competitive SBL loan offers without impinging on credit risk parameters.

QUESTION

What is most important to your SBL Business?

Flexible loan offer 3%
Speed-to-loan 29%
Increasing book size 42%
Operational efficiency 26%

QUESTION

Granular and flexible credit policy capabilities mean that I can:

- Be more competitive without taking material risk 52%
- Grow my business with low risk 29%
- Offer my clients exceptions to the standard policy 19%
Industry concerns

Volatility risk has, correctly, been the prime concern. With bigger books to manage and increasing loan complexity, the ability to handle large scale market volatility becomes increasingly challenging. Huge market volatility in March has seen SBL automation prove its value in mitigating credit risk and resolving high volumes of out of margin events.

68% High volumes of OOM events
25% Regulatory constraints

MARKET SHIFTS RESULTING IN LARGE VOLUMES OF OOM EVENTS

After many new highs in 2019 and early 2020, more recent market behaviour has been severely volatile. With conditions "as ugly as ugly gets", SBL lenders know that their capacity to handle a major market correction depends on the ability to assess and triage risk in the book, identify and manage the most at-risk loans and to evaluate concentration risk at speed for management. System automation helps to manage credit risk at scale and at speed, reducing losses and supporting the bank in dealing with the inevitable customer concerns and worries.

Lenders respond to volatility by managing large books in a systematic way with loan escalation, bulk triage, line blocking and line reducing whenever needed. Likewise, a structured process for communicating and curing loans ensuring a fast and secure communications loop between the bank, the FA and the client is a key requirement.

REGULATION STIFLING THE BUSINESS

Where there are loans, there is regulation and regulatory attention is still seen as something to watch. Particularly, with any broadening of the SBL market to include the mass affluent or increased demand for liquidity as a result of the market correction, regulatory changes need to be monitored with a view to how the business might be impacted. Mis-selling, confirmation of suitability and asset coverage are areas which lenders should already be managing with a conservative frame of mind.

A SIDEBAR ON INTEREST RATES

The low interest rate environment looks set to continue, and current conditions may make borrowing inevitable for some. As the Federal Funds Rate approaches zero, credit will at least be inexpensive.

Even as we approach a zero interest rate environment, the future is uncertain. When rates eventually start to rise again, it is not the case that increasing interest rates naturally push up the cost of SBL credit and, as a result, dampen demand. In fact, many banks find that as interest rates increase, other lending products (e.g. HELOCs) get squeezed or become more expensive. In this environment, SBL comes into its own. And at times of tight liquidity, offering credit against a portfolio of securities is an important component of the WM product offering.
The push is on to get SBL loans approved and funded quickly and seamlessly. Larger SBL lenders are leading the way in adopting automation and pressing for streamlined end-to-end processing – and speed. Our survey shows that same-day processing, while still a distant prospect, is an objective for most.

WMs are already under pressure to reduce time to loan approval and to streamline client onboarding. In the process, banks are tending to strip back the requirement for time-consuming underwriting requirements such as tax returns, financial statements etc. for lighter on-boarding processes (credit score, ability to repay, overall leverage). This can only work successfully when combined with a rigorous and systematic assessment and ongoing monitoring of the quality of the underlying AUM and robust credit risk management.

This more systematic and “lighter” approach to risk evaluation and monitoring is well-aligned with the need to serve the universally accepted mass affluent market segment. As the market starts to broaden beyond HNW and UHNW, so the need to be able to scale onboarding processes in a fully digital model becomes critical.

More than ever, banks manage a delicate balance between business growth and risk management. The ability to grow is entwined with the bank’s ability to operate efficiently and to manage credit risk in a robust and systematic way at scale.

Sustainable SBL must be underpinned by the operational streamlining that assures a positive client experience and is supported by robust credit risk systems that mitigate against market volatility and concentration risk.

A SIDEBAR ON UNDERWRITING:

WMs are already under pressure to reduce time to loan approval and to streamline how clients are onboarded in the digital world. Treating SBL as true asset-backed lending with limited underwriting of the client’s overall financial position is becoming more and more the norm.

SBL automation enables the WM to move from a product that is underwritten against the client to a scalable SBL product which leverages the underlying assets as the primary source of security with full risk control.

QUESTION

The following system features are important to my business:

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managing regulations W&amp;U</td>
<td>3%</td>
</tr>
<tr>
<td>Investment Account Evaluation at time of onboarding</td>
<td>24%</td>
</tr>
<tr>
<td>Facilitating collateral distribution/ release of assets</td>
<td>24%</td>
</tr>
<tr>
<td>Monitoring loans and automated management of margin calls</td>
<td>48%</td>
</tr>
</tbody>
</table>
Stress testing – what information gaps are causing concern?

SBL loan and portfolio data is commonly distributed across multiple systems. Every-day credit risk management and growth are impeded without accessible and aggregated data; at times of volatility, large-scale credit management is stalled.

WMs are looking for high-quality, real-time data to manage concentration risk, risk reporting and scenario testing, to deliver enhanced CX and for pre-emptive risk management. The lack of a single database to provide necessary SBL-related information still tops the list of concerning information gaps. WMs and banks are naturally focused on loan monitoring and margin call automation as fear of market volatility increases. Their focus is on stress testing specific securities and asset classes and handling high volumes of OOM alerts.

With rapid market shifts, tracking concentration risk at security level is critical. Getting better visibility into the impact of specific market moves enables pre-emptive responses and improved CX. Comprehensive SBL stress testing capability gives the insights and the signals that give support to the team when volatility strikes.

Business reports are also consistently in demand. Without fail, lenders want to know about the composition and positioning of the book – whether for risk decisioning or for business insights.

Acknowledging SBL as a strategic part of the wealth product set, WMs want to enable the sales channel with an automated single platform, always with an eye to risk mitigation and to sudden market moves. Successful wealth managers are using a single platform approach to deliver an aggregated view of the book, enabling scenario planning, credit risk mitigation and granular drill down for complete client and loan management.

**QUESTION**

Stress testing our SBL book is important to us:

- **No** – we have no concerns about exposures since our margin rules will kick in regardless: 3%
- **Somewhat** – operationally our risk management protects us: 20%
- **Yes** – we like/need to know what could happen under different market circumstances: 77%

**QUESTION**

What is the biggest gap in your SBL information currently?

- **No single database where I can get the information I need**: 33%
- **Business level reports**: 33%
- **Inability to stress test**: 23%
- **History of OOM**: 10%
Conclusion

As SBL moves evermore into the mainstream, wealth managers are empowered to operate in the SBL market with increasing sophistication – driven by the accurate and granular data they can source from state-of-the-art systems, even in the choppiest of market conditions.

Whatever the markets have in store for us, digitization makes accessing client and market information easier than ever.

In the face of uncertain market conditions, vendors need the capacity to place their credit risk management focus in the right place. The need to triage the book and handle OOMs automatically at scale is self-evident.

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Chart Appendix
QUESTION
There is alignment in the market for SBL - it is a real opportunity for our bank:

- Completely Agree: 35%
- Agree: 65%
- Disagree: 0%

QUESTION
My organization likes the SBL business because:

- It helps us attract FAs on the move: 42%
- It has low capital adequacy requirements: 23%
- It is a profitable and low-risk credit line: 13%
- Client demand continues to grow year-on-year: 13%
- Credit creates stickiness, less risk of losing AUM business: 45%

QUESTION
SBL loan balances at my bank over the last three years have grown by:

- Less than 10%: 10%
- Between 10% - 20%: 23%
- Between 20% - 30%: 13%
- More than 30%: 54%

QUESTION
We are not fully utilizing our AUM to drive profits and retain clients through SBL:

- Completely Agree: 11%
- Agree: 67%
- Disagree: 22%
Over time, credit will be offered against a wider range of collateral types. In the last year, my institution has taken the following as SBL collateral:

- Hedge Funds: 40% Yes, 60% No
- Non-Liquid Assets: 44% Yes, 56% No
- Non-USD Assets: 57% Yes, 43% No
- Insurance Policies: 21% Yes, 79% No
- Derivatives: 57% Yes, 43% No

Limited automation means that:

- It takes too much effort to evaluate an investment account: 12%
- Can’t manage communication margin calls, draw down requests and releases: 12%
- Can’t optimize lending amounts: 12%
- Can’t manage risk: 20%
- Can’t scale: 44%
I see outsourcing the servicing (but not the funding) of SBL as a viable and low-cost option for scaling my business:

- 52% Completely Agree
- 32% Agree
- 16% Disagree

I predict non-bank / fintech players will offer SBL Loans (e.g. SOFI, Wealthfront) in the next three years:

- 65% Completely Agree
- 35% Agree
- 16% Disagree

My biggest concern about affiliating with a third party is:

- 18% I can’t see the account data on an intraday basis, if there is need to make a margin call
- 6% I don’t have a watertight grasp over the asset
- 12% I’m only getting insights into third party accounts on a nightly basis
- 65% I don’t have control if I need to sell assets

We find it hard to meet our banker/FA expectations because:

- 46% I can’t provide detailed account information
- 55% WE CAN’T HELP DIRECT MARKETING EFFORT
- 65% OUR TIMING IS TOO SLOW
- 32% WE CAN’T PROVIDE DETAILED ACCOUNT INFORMATION
**QUESTION**
Which external force poses the greatest threat to the SBL environment?

- Public perception of the SBL product: 6%
- Rising interest rates: 48%
- Market volatility: 43%
- Increased regulatory scrutiny: 3%
- Other – please specify: 33%

**QUESTION**
I would most like to see these areas stress-tested:

- Indices: 6%
- Sector / Industry: 13%
- Specific securities: 42%
- Asset classes: 39%

Stress testing would help me to:

- Better understand and react to concentration risk in the portfolio: 20%
- Have visibility on the impact of specific market moves on my book: 47%
- Give peace of mind to the Risk team and others that we have control of things: 33%